



Corporate Social Responsibility in the Energy Sector

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Sustainability Report

The Abdullah Bin Hamad Al-Attiyah International Foundation for
Energy & Sustainable Development





INTRODUCTION

CORPORATE SOCIAL RESPONSIBILITY IN THE ENERGY SECTOR

As the concept and range of CSR continuously expand, new trends emerge to meet such concerns. These trends are reflected in the energy sector through attention to green energy investment and reduced contribution to climate change; community engagement on major new projects; bridging the talent gap to produce highly-skilled new employment; and working with governments to introduce social responsibility policy reforms. Nevertheless, there are several challenges for CSR programmes in the energy sector which, in turn, are likely to be exacerbated by the Covid-19 pandemic and associated recession.



Sustainability Report

This research paper is part of a 12-month series published by the Al-Attiyah Foundation every year. Each in-depth research paper focuses on a prevalent sustainable development topic that is of interest to the Foundation's members and partners. The 12 technical papers are distributed to members, partners and universities, as well as made available online to all Foundation members.



EXECUTIVE SUMMARY

- CSR has a long history and has become more sophisticated and demanding over time. From a voluntary corporate action, it has increasingly been demanded by shareholders, governments, and society. Its concerns reflect wider social trends and issues of the day;
- Companies' CSR adoption is motivated by internal and external drivers, with economic and political factors being the most dominant;
- The main drivers for the adoption of CSR are cost savings and profitability, along with the avoidance of legal, financial, and environmental liabilities;
- The oil and gas industry has been among the champions of CSR practices, because of its international operations, the various impacts it has on the environment, and the consequent scrutiny from environmental and social non-governmental organisations (NGOs);
- CSR emerging trends are focused on greenhouse gas footprints, improved energy efficiency, renewable energy investment, and increased financial disclosure and anti-corruption measures;
- Many oil and gas producing countries are experiencing ever growing demand for social and economic development, continually putting pressure on international oil companies (IOCs) to increase their CSR programme, which could worsen if these IOCs are overtaxed;
- Local communities sometimes have unrealistic demands, especially with regard to the provision of employment opportunities; and

- The Covid-19 pandemic is likely to put more pressure on the energy sector's CSR programmes, especially as its profitability falls, local unemployment surges and workforce mobility diminishes.

HISTORICAL EVOLUTION OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

Since the 1930s, business managers began to recognise their responsibilities to create and maintain a balance between profit and clients, labour force, and the community. It was not until the early 1950s that social responsibilities were specifically defined, in the post-war Western consensus of regulated capitalism. In the 1960–70s, primary concerns rose to include rapid population growth, pollution, resource depletion, along with social movements regarding the environment and human and labour rights. Climate change became a major and growing issue in the late 1980s, and one that particularly involves energy companies. The phrase "corporate social responsibility" first began to be used in 1965, and took off in the early 1970s, fell in the late 1980s, before reviving in the 2000s (Figure 1).

FIGURE 1 FREQUENCY OF THE PHRASE 'CORPORATE SOCIAL RESPONSIBILITY', 1960–2008ⁱ



In 1994, John Elkington, a British advisor and entrepreneur, introduced the Triple Bottom Line as a sustainability framework that sets an equilibrium between a company's social, environmental, and economic impact. The triple bottom line, sometimes expressed as "profits, people and planet", became popular in the late 1990s as a tangible approach to sustainabilityⁱⁱ.

An important development occurred in 2005, when the UN Global Compact "Who Cares Wins" conference coined the phrase Environmental, Social and Corporate Governance (ESG). This approaches the CSR question from the perspective of the investor, rather than the company. It argues that a company's management of ESG should be a key factor for appraising its value, rather than solely financial metrics as in traditional investment analysis. The strong version of this claim is that effective ESG adds value to companies, as well as to society.

Most recently, a strong theme of CSR has again been highlighted by the 'Black Lives Matter' movement emerging from the US, with many large corporations announcing measures to redress racial injustices. This has been an important trend in post-apartheid South Africa, with many big companies, such as Sasol, banks, mining companies, and Petro SA committing to support Black economic empowermentⁱⁱⁱ. Greater gender diversity and female empowerment has been another strong CSR theme. In the wake of the Covid-19 pandemic, assuring the health of workforces and communities will likely gain in prominence. For instance, BP removed thousands of workers from the Tangguh LNG facility expansion project in Indonesia for safety from contracting the virus and donated \$2m to the World Health Organization's Covid-19 Solidarity Response Fund^{iv}.



CSR concepts

- Corporate social responsibility (1965 onwards): a business's responsibility to its social and environmental impacts rather than solely its financial ones
- Corporate citizenship (1954): slightly earlier formulation of CSR
- Triple bottom line (1994): the balance between economic, social and environmental impact
- Stakeholder: any party with a legitimate interest in a company's operations, including shareholders, employees, suppliers, customers, communities and others
- (Social) licence to operate: the consent of society to permit a company's operations and projects, beyond narrow legal compliance
- Environmental, social and corporate governance: the integration of these factors into investment evaluation

Corporations' general CSR practices revolve around maintaining and improving economic development while protecting the environment and improving the employees' and community's social welfare and life condition and at the same time meeting shareholders' demands and expectations.

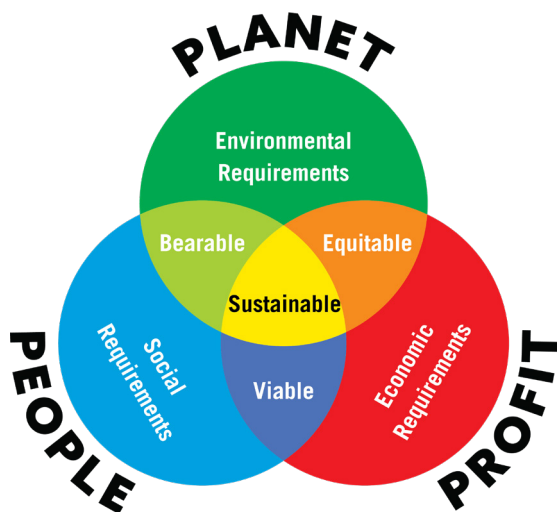
The Friedman view in 1970 and Grayson/Hodges assertion in 2002 illustrate how far CSR has evolved over time.

From the late 1990s, the idea arose that companies had to earn a "social licence to operate", which went beyond simple legal and regulatory compliance, and encompassed the willingness of host communities and broader society to permit a company's activities, involving a certain level of trust and acceptance of responsibility. The lack of social licence can be manifested as legal challenges to rights-of-way, protests, boycotts, and political lobbying. Such campaigns have halted energy projects such as the Keystone XL pipeline from Canada to the US, the Northern Gateway pipeline in Canada, shale gas drilling, new onshore wind power in the UK, and Shell's exploration off the northern coast of Alaska. As new societal concerns emerged and globalisation expanded, more pressure was put on corporations' CSR programmes.

"The social responsibility of business is to increase its profits" Milton Friedman, 1970

"Today, the business of business is everybody's business" David Grayson and Adrian Hodges, 2002





This particularly applied to multinational corporations (MNCs) and their operations in developing countries, including oil, gas, and mining. By the early 2000s, social responsibility became reinforced and institutionalised through a variety of international accords, principles, and certifications. These include:

- The UN Global Compact (UNGC), Global Corporate Citizenship Initiative (GCCl), Equator Principles for Financial Institutions (EPFIs), the Extractive Industries Transparency Initiative (EITI) and the UN Principles for Responsible Investments (UNPRI)^v;
- The international standard to help organisations to assess their social responsibilities: ISO 26000; the environmental management standards ISO 9001 and ISO 14001; and the social accountability standard SA 8000; and
- The Benefit Corporation (B Corp) certifies companies for "how your company's operations and business model affect your workers, community, environment, and customers", and has been adopted by more than 2,500 companies in over 50 countries^{vi}.

By end-2018, ISO 26000 had been adopted by more than 80 countries as a national standards guideline.



OIL AND GAS COMPANIES HAVE BEEN IN THE FOREFRONT OF IMPLEMENTING CSR

The oil and gas sector has been among the industries that championed CSR practices, mostly because of its worldwide investments, often in challenging areas; and various visible impacts of its megaprojects and operations, leading to waves of environmental and social activism. This came to the fore particularly in the late 1980s and 1990s, with the major cases of the Exxon Valdez oil tanker spillage (1989), the campaign over Shell's disposal of the Brent Spar oil platform (1995), the Ogoni social activists in Nigeria (1995), and environmental and community concerns over BP's Baku-Tbilisi-Ceyhan pipeline (1993-2005).

Traditionally, typical petroleum company CSR initiatives have included the provision of electricity, water and roads to local communities; education, training and employment programmes; hiring of local people as security guards, drivers and other lower-skilled jobs; empowerment of small entrepreneurs; protection or restoration of cultural and environmental sites; donations to charities and NGOs; and local procurement of supplies. More recently, environmental issues have achieved greater prominence, including reducing flaring and methane leaks, clearing up oil spills, and reducing overall carbon footprints. The Extractive Industry Transparency Initiative (EITI) encourages countries and companies to report payments to and from extractive companies, and disclose contractual terms, to discourage corruption and ensure a fair share of natural resource wealth accrues to citizens.

Notwithstanding the great CSR strides being made by the oil and gas industry, there is still lots of room for improvement. According to the World Benchmarking Alliance's assessment of human rights CSR, nearly half of extractive companies are in the lowest bands (0-20%) compared to other sectors.

THE MAJOR DRIVERS OF CORPORATE SOCIAL RESPONSIBILITY

Many forces drive companies to adopt CSR strategies. These can be divided into internal forces that encourage a company to choose, in order to improve its business performance; and external that are required by governments, shareholders, society or other forces.

Internal drivers

- Economic drivers
 - Cost savings and profitability
 - Access to new markets
 - Long-term financial/business strategy
 - Limitation of risks of legal or community-related delays to major projects

Companies often develop CSR programmes due to the associated cost-savings and profitability. Companies whose CSR strategy takes the effects of climate change into account are likely to benefit from cost savings and avoid risks^{viii}. CSR adoption can also unlock expansion opportunities and grant companies a stronger competitive advantage to benefit from new emerging markets, new products or services, risk prevention and cost-savings.



- Organisational drivers
 - Avoidance of legal cases, including anti-corruption, labour-related and environmental
 - Risk prevention and management
 - Improved reporting and disclosure
 - Compliant corporate culture and industry norms

Oil and gas operations are very vulnerable to sensitive technical, political, social, and environmental issues that pose high reputational legal and financial risks to the business organisations. BP's Macondo well blowout, resulting in the leakage of an estimated 4.9 mbpd into the Gulf of Mexico, is one example of such risks. The spill destroyed wildlife, coasts and fishing grounds and resulted in a record \$4.5bn fine imposed by the US's Department of Justice, and a total of \$65bn in clean-up costs, compensation and legal fees^{ix}. This pushed oil and gas companies to strengthen efficient and sophisticated CSR programmes in order to limit legal, financial, and environmental liabilities.

In the Netherlands, the chemical sector's greenhouse gas emissions accounted for 12% of the national total per year, driving the country to develop the 2012-2030 Routekaart Chemie (Chemicals Roadmap), which proposes five solutions:

1. Improved energy efficiency
2. Replacement of fossil fuels with green raw materials
3. Carbon capture and storage/usage
4. Closing of the material chain (recycling)
5. Development of sustainable products and sustainable energy.



Subsequently, most companies became focused on the energy efficiency route, leading the Dutch chemical sector to be one of the leaders in Europe in energy efficiency ^x.

Oil and gas companies are often accused by environmentalists of 'greenwashing', that is, publicising minor or meaningless environmental programmes to cover up their damaging activities. To avoid charges of greenwashing, oil and gas companies engage in mandatory and voluntary reporting initiatives set by the government or independent bodies. These also include international initiatives for CSR reporting such as the Global Reporting Initiative (GRI) and the mandatory disclosure of information like the European Directive 2014/95/EU on disclosure of non-financial and diversity information. CSR reporting is also used to attract socially responsible investors.

Another driver of CSR in the energy sector is corporate culture and norms. Bashtovaya (2014) indicated that the moral responsibility to do what is right is one of the major reasons why energy companies engage in CSR^{xi}. CSR is usually used for the development of employees and improvement of working conditions, by providing competitive salaries and ensuring an inclusive environment for the staff.



- Social drivers
 - Social license to operate

Increased pressure from government, communities, social groups, and the media has become one of the major drivers for CSR initiatives in the oil and gas industry. One of the major drivers behind the adoption of CSR by multinational oil companies, especially national oil companies wishing to operate globally, is the increasing pressure on the companies to comply with international and local regulations relating to environmental and social responsibility^{xii}.

It is now common practice to make transparent and active engagement of stakeholders an integral part of CSR initiatives. Such consultations with stakeholders ensure that the requirements from the communities are addressed by the CSR programmes and essential prerequisite for licencing is met.

- Political drivers
 - Branding, reputation, and good corporate citizenship
 - Image enhancement
 - Stakeholder pressures



The strongest factors that lead to CSR adoption are those of branding, reputation enhancement and the creation of good corporate citizenship. Companies are more likely to engage in CSR to gain global recognition and attract capital and investors. It is also a strategy to help close contracts and influence consumer behaviour.

Stakeholder engagement is viewed as a key element of CSR risk management, especially as a way of establishing dialogue and consultation, which helps reduce negative feelings towards a company. Stakeholder consultation is an essential and often mandatory part of launching major new energy projects, with plans being adjusted to minimise objections from those who may be impacted.

External drivers

- Legislative and regulatory frameworks
- Social commitment and engagement
- Attraction and cultivation of needed talent^{xiii}

A certain amount of minimum compliance on CSR is mandated by governments, stock exchanges and professional organisations.

Companies that effectively implement CSR strategies benefit from complying with regulatory frameworks. They can contribute to the design of national and international regulations, build a trust-based relationship with stakeholders and the government, and improve consumers' and employees' perceptions of their activities.



WHAT ARE THE EMERGING TRENDS IN CORPORATE SOCIAL RESPONSIBILITY?

CSR trends have been expanding to cover a diversity of issues as its definition stretches over different aspects of social, ethical, and environmental considerations.

Table 1 shows emerging trends in CSR in the energy sector.

TABLE 1 EMERGING CSR TRENDS IN THE ENERGY SECTOR^{xiv}

Environment	<ul style="list-style-type: none"> - Demands for credible plans to reach “net zero” greenhouse gas emissions by around 2050 - Reduction of CO2 emissions and water consumption per capita - Boosting use of renewable and other low-carbon energy - Building environmental awareness with local energy ministry and NGOs
Society	<ul style="list-style-type: none"> - Improved labour rights and conditions - Building relations with local schools and universities to attract needed talent - R&D spending, university-industry collaboration - Establishing a Code of Conduct and other related policies for employees - Creating viable employment for local communities near project sites - Pressures for racial and gender justice and diversity
Politics	<ul style="list-style-type: none"> - Increased financial disclosure and anti-corruption measures - Responsible development of common infrastructure (eg roads, water, power) - Building public and private sector partnerships - Advising government agencies on energy reform policies, energy taxation, land use planning, etc

THE LIMITATIONS OF CSR PROGRAMMES IN THE OIL AND GAS INDUSTRY

CSR suffers from five major problems. Firstly, it is often a separate business activity, not properly integrated with the broader business strategy of the company. This tends to limit the long-term impact of CSR initiatives.

Secondly, many CSR activities do not fit within an oil company's core skills and are therefore not carried out in a sustainable and cost-effective way. Oil companies are often asked to carry out tasks such as providing schools or clean water, which are strictly speaking the responsibility of government and outside the core competency of the companies. When energy companies attempt to deliver such services, they are exposed to many potential pitfalls.

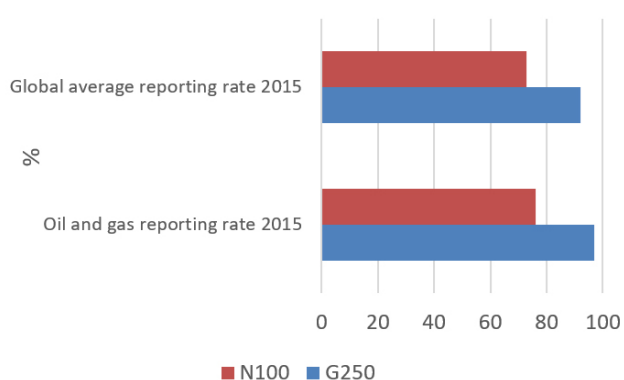
Thirdly, local communities' aspirations for investment and employment may be limitless, and oil companies find them hard to satisfy. Other communities not in the immediate district may become envious, leading to local migration, social disruption and conflicts, as seen in the Nigerian oil-producing Niger Delta. Governments may refuse to pay their share of CSR programmes or allow them to be cost-recoverable against oil revenues, as this would cut the share received by the central treasury. The objectives of different stakeholders may clash, with local communities wanting employment opportunities while environmentalists oppose petroleum developments.

Fourthly, oil companies face major public scepticism, particularly in Europe and parts of North America, with accusations of 'greenwashing' because of their association

with global warming and other environmental damage, while in resource-rich developing countries they often have negative social, environmental and corruption-related legacies.

This scepticism may be exacerbated by inadequate disclosure. The reporting rate for the top 100 companies by revenue in each of the 49 countries cited in KPMG's oil and gas CSR study (Figure 2), show that oil and gas firms have slightly better reporting rates than the average, although there is still much room for improvement.

FIGURE 2 PERCENTAGE OF OIL AND GAS VERSUS GLOBAL AVERAGE CSR REPORTING RATE, 2015^{xv}



Finally, the overall impact of the oil industry in a country may be negative, even if local CSR initiatives are positive. From the economic perspective, oil producers realise that their main responsibility to host communities is through the provision of employment opportunities, investment, and tax payment. However, many oil producing countries are still suffering from economic underdevelopment. The host government often reaps so much taxes from IOCs that they are left with little incentive to pursue development projects and pro-growth economic policies. Unfortunately, some of these realities cannot be addressed through CSR. Like Peter Utting, deputy director of the UN Research Institute for Social Development, puts it succinctly, "CSR generally attempts to curb specific types of malpractice and improve

selected aspects of social performance without questioning various contradictory policies and practices."

THE CSR LANDSCAPE IS LIKELY TO BECOME TOUGHER

For three reasons, CSR requirements are likely to become more stringent. Firstly, the current circumstances of pandemic and challenges to trade. Secondly, the increasing policy and public pressure on climate change, with oil and gas companies in the forefront. Thirdly, a growing societal movement for greater transparency, younger people's demands for potential employers to meet social objectives, and a possible backlash against income inequality and the influence of big business.

Although necessary to stop the spread of Covid-19, lockdown measures resulted in unprecedented pressure on local labour markets and economies. A direct initial reduction of 20-25% of GDP has been observed in a number of OECD countries since lockdown measures have been imposed^{xvi}. Local labour markets could suffer for years to come, as regional disparities in unemployment, and economic inactivity exacerbate. This will place IOCs under a heavier burden to provide job opportunities for the local community in which they operate.



THE CSR LANDSCAPE IS LIKELY TO BECOME TOUGHER

The US-China trade war and the current US administration's pursuit of 'America First' policy continues to drag the world away from the era of globalisation. The dramatic reduction in global trade flows in 2019 has been further exacerbated by the coronavirus pandemic, which is predicted to cause a decline of 13-32% in world trade in 2020, according to the World Trade Organization^{xvii}.

CSR initiatives will continue in 2020 but will look different from last decade in three ways, mainly due to the pandemic's effect.

First, while CSR practices in the energy sector focus mainly on environmental protection, the focus is likely to shift to employee and community wellbeing in 2020, with companies embracing bold decisions to keep their employees safe from the virus. Second, more attention is currently being given to local communities' protection, with headlines documenting efforts to reuse infrastructure for healthcare purposes, medical supplies, groceries, and staples around the world. Third, the main target for companies has become the return to "business as usual", which is a key CSR objective at the current situation. Covid-19 has reinforced the role of businesses in maintaining and improving the quality of life for communities. The focus will be not only on emerging from the crisis for shareholders, but also on rebuilding the foundation of jobs upon which society relies^{xviii}. This addresses concerns about economic recovery post-pandemic and tackling widespread issues of economic inequality and discrimination.

Consequently, the energy sector will be required to show greater transparency, comply with new reporting and monitoring requirements/regulations, and answer to NGO and shareholder demands and needs. Ravindra



Puranik, oil and gas analyst at GlobalData, said "In 2020, the pressure will mount on companies to be more transparent about their ESG credentials ^{xix}."

OPPORTUNITIES AND CHALLENGES FOR CSR AS A TOOL FOR ENHANCING THE ENERGY SECTOR'S CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

Companies that have clear and defined CSR strategies with concrete measures are best placed to achieve their sustainable development goals. Corporations generally recognise the importance of CSR activities, but their CSR programmes are still limited and not systematically mainstreamed into core business activities. Instead, they are carried out by individuals rather than dedicated CSR units.

The oil and gas industry operations are traditionally located in remote rural areas of developing countries. This demands that companies develop a new set of cultural and political sensitivities and knowledge of their local partners and consumers, to be able to operate effectively.

In addition, more investment is needed for R&D to improve the design and implementation of CSR in oil and gas companies. Social media, drones, virtual reality, and artificial intelligence are among approaches that could help with the communication, delivery and monitoring of CSR initiatives. Firms that invest in R&D are expected to be more innovative and achieve efficient and cost-effective technological advancement for cleaner production. In addition, the evaluation of CSR activities after implementation is sometimes lacking. Certain oil and gas companies include only 'input' in their CSR reports without citing

'output' measures, including how effectively the money was spent. This renders quantifying the local community's benefits from CSR initiatives difficult.

As there is a growing trend to legislate CSR through national regulations and according to international standards, there is good opportunity for oil and gas companies to partner with governments in the shaping of pragmatic CSR legislative regime.



SOME SPECIFIC RECOMMENDATIONS FOR MAJOR OIL AND GAS PRODUCERS:

- Oil and gas companies should follow a CSR approach based on shared value, social commitment, and engagement, rather than just financial accountability;
- The gap between CSR awareness and practice should be bridged through the development of specific CSR units/ departments which set a clear and defined long-term strategy focused on shared value;
- Companies should establish units/ departments dedicated to the creation and implementation of CSR strategies as well as appoint specialised professionals to improve CSR output^{xx};
- Where oil companies are not ideally suited to carry out CSR programmes themselves, they can partner with other companies, for instance in infrastructure, education and healthcare, business forums, as well as NGOs and local community organisations;
- Despite the oil-price crash, the oil and gas industry is still well-placed to help fight the Covid-19 pandemic. This is important for operational continuity but also for maintaining employee and national goodwill;
- Operating cost reduction through sustainable practices embedded within CSR strategies, an improved supply chain resilience, reduced legal operational, and reputational risk should motivate oil and gas companies to pursue well-designed, concrete, and long-term CSR objectives; and

- As companies internationalise, they need to anticipate and adapt to different and more challenging CSR requirements in new markets. They also need to anticipate and respond to emerging social trends and movements.

CONCLUSION

The evolution of CSR reflects trends in business thinking and wider society, as well as corporate identity. From being a voluntary initiative, it has moved to being partly mandatory, and partly an important component of earning the 'social and legislative licence to operate'.

The legacy of Covid-19 and the associated economic recovery will likely affect CSR over the next few years. The strategic decisions that companies make would determine whether Covid-19 affects their CSR initiatives positively or negatively. The imperative of tackling climate change and moving towards net zero greenhouse gas emissions by around 2050 would be integral to CSR practices going forward.

As NOCs move internationally, and as they and IOCs develop new businesses, for example in renewables, electricity retail, carbon capture and storage, and hydrogen, they will have to expand their approach towards CSR.



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